EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF

ENERGY SECTOR STATE CORPORATIONS IN KENYA

DEBORAH JEPKEMBOI

A Research Project Report Submitted to theSchool of Business and Economics in Partial Fulfilment of the Requirements for the Award of the Degree in Master of Business Administration (Finance Option) Kabarak University

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DECLARATION

This research project report is my original work and has not been presented for a degree in any other university.

Signature ……………......................   Date …………………………

DEBORAH JEPKEMBOI

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RECOMMENDATIONS

To the institute of Post Graduate Studies:

The research thesis entitled **"Effect of Corporate Governance on Financial Performance of Energy Sector State Corporations in Kenya"**

" and written by **Deborah Jepkemboi** is presented to the institute of post graduate studies of Kabarak University. We have received the research thesis and recommend it to be accepted in partial fulfillment of the requirement for award of the degree in Master of Business Administration in Finance Option.

Sign …………………………………………….Date…………………………

Dr. Patrick Kibati

School of Business & Economics,

KabarakUniversity, Kenya

Sign …………………………………………..Date…………………………

Dr.SymonKiprop

School of Business & Economics,

Kabarak University, Kenya

DEDICATION

This work is dedicated to my husband Martin Kemboi and daughter Alexis Kemboi.

ACKNOWLEDGEMENTS

ABSTRACT

This study aimedtoexamine theeffect of corporate governance on financial performance of Energy sector state corporations in Kenya. Specifically, the study sought to examine the role of internal controls, stakeholder management, organizational culture and leadership on the financial performance of Energy sector state corporations in Kenya. Since the study sought to obtain its data from senior management team in charge of the various activities and departments in energy sector state corporations, the researcher expected the respondents to be too busy in their daily duties which could have prolonged data collection exercise this limited the study. The study was guided by agency theory, stakeholder's theory and resource based theory. The target population for the study was a total of 154 senior management staff in the finance offices of the Kenya Power, Geothermal Development Company, and KenGen. This study used acensus to select respondents for this study. Data was obtained using structured questionnaires. To ascertain whether the research instrument was valid, the study used Content Validity Index based on responses given by five content experts in the subject matter who comprised of the research supervisor and four managers in theEnergy sector state corporations. This study used Cronbach Alpha test of internal consistency to test the reliability of the research instrument based on pilot data. The pilot study was carried out among 15 (10% of sample size) senior management personnel from Nairobi County. After obtaining the study questionnaires from the field, the researcher checked the completeness of the questionnaires after which the questionnaires were coded into Statistical Package for Social Sciences for analysis. This study used both the descriptive and inferential statistics to analyse the data. Tables were used to present the study findings. The study found that internal controls, stakeholder management, organizational culture, and leadership accounts for 78.6% of the variability of financial performance of energy sector state corporations in Kenya. The study also found that internal controls, stakeholder management, organizational culture, and leadership have statistically significant influence on the financial performance of energy sector state corporations in Kenya. The internal controls were found to have greater influence on financial performance of energy sector state corporations followed by stakeholder management, organizational culture, and leadership. The study recommended that the energy sector state corporations ensure that there is there are adequate internal controls and that the frequency of internal audit be increasedfor effective monitoring of accounting and auditing operations. The energy sector state corporations should invest in updated systems for risk management and safeguarding of assets for protection against losses and depreciation of assets. Trainings to assist stakeholders identify their roles and responsibilities, to empower them towards their role in project sustainability should be conducted.

Key Words: Corporate Governance, Financial Performance, Internal Controls, Leadership, Stakeholder Management, Organizational Culture

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ABBREVIATIONS AND ACRONYMS

AMREF: African Medical and Research Foundation

CDF: Constituencies Development Fund

NACOSTI: National Commission for Science, Technology and Innovations

NGOs: Non-Governmental Organizations

ROA: Return on Assets

SPSS: Statistical Package for Social Sciences

OPERATIONAL DEFINITION OF TERMS

Corporate Governance: The system of rules, practices and processes by which a the energy state corporations are directed and controlled (Abdullahi, 2016)

Financial Performance: Refers to how well the energy state corporations utilize their assets for the purposes of revenue generation (Oppong, Owiredu, &Abedana, 2016).

Internal Controls: Accounting and auditing activities aimed at ensuring that the energy state corporations meet their objectives in the most efficient and reliable manner (Abdullahi, 2016)

Leadership: The action of offering guidance and spearheading activities of an energy state corporation (Oppong, Owiredu, &Abedana, 2016).

Organizational Culture: Assumptions, values, beliefs, and the expectations that the employees share in common and are used to propel the energy state corporations in meeting their objectives (Bett&Memba, 2017).

Stakeholder Management: Refers to the process of developing relevant strategies by management aimed at engaging all stakeholders throughout the activities of the energy state corporation (Abdullahi, 2016).

State Corporation: Refers to legal entity that is fully or partially owned by the government to carry out activities on behalf of the government and for the benefit of the general public (Bett&Memba, 2017).

CHAPTER ONE

INTRODUCTION

1.1   Background of the Study

Theenergy sector companies face diverse financial performance challenges across the world. Etengu and Amony (2016) notes that financial performance is theextent of utilization of firm's resources to generate income. The study by Mwithi (2016) on performance of state corporations measured financial performance of firms on terms of profits generated, return on investment, return on assets, level of sales and market share, total shareholder return and economic value added. Maxwell (2015) also used related measures of financial performance in state corporations. These measures included; return on assets, return on equity, profit generated and level of market share.

Other measures used for financial performance in the context of state corporations include profits, return on assets, efficiency in utilization of funds, market sales, extent of market spread, level of market penetration and market share among others. Shareholder return measure performance in terms of total shareholder value added. Oloo (2015) on the hand measured financial performance of State Corporation in terms of the quality of portfolio, productivity efficiency of the state corporation, level of financial management and profitability of the state corporation.

The corporate governance has been noted as amongst the aspects that has influenced financial performance in diverse organizations across the world. Kangarlouei, Jam, and Motavassel (2013) noted that corporate governance is the set of processes, procedures or policies instituted to guide how an institution is run or controlled. It refers to the act of making sure corporations re running efficiently and is accountable to financiers (Mutave, 2014). On the other hand, Nulawadin (2012) refers to corporate governance the process and mechanisms of directing and managing corporation affairs with an aim of making sure that the corporation

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meets its objectives and theexpectations of its stakeholders. Corporate governance relates to stakeholders, laws and policies of a corporation. Stakeholders may includeemployees, suppliers, customers and shareholders (Gherghina, 2015).

Ayu and Putri (2017)conceptualizes corporate governance as aspects such as accountability, transparency, fairness and integrity. Oloo (2015) gives the components of corporate governance as transparency, independency, quality of service, state corporation image and disclosure of information in regard to corporation activities and the level of integrity. On the other hand Achchuthan and Kajananthan (2013) states that in the context of state corporations, corporate governanceis the control mechanism to secure confidence for shareholders, government, employees, suppliers, and customers. Waweru (2017) outline theeffectiveness of Board Characteristics, Executive and Director Compensation policies, Board Audit Committee and theeffectiveness of the Legal and Regulatory Framework as determinates of corporate governance in state corporations in Kenya. In this study, the corporate governance aspects wereexamined using internal controls, stakeholder management, leadership and organizational culture.

Oppong, Owiredu, and Abedana (2016) defines internal controls as accounting and auditing activities aimed at ensuring that the organization meets its objectives in most efficient and reliable manner. It includes activities such as controlling organizations' cash receivables and payables. Stakeholder management has been taken to refer to the process of developing relevant strategies by management aimed at engaging all stakeholders throughout the activities of an organization. The Stakeholders involvement or engagement is based on their interests, needs and expected contribution to the running of the organization or projects carried out by the organization (Hassan, 2012).Yesil and Kaya (2013)examines organizational culture as the assumptions, values, beliefs, and theexpectations that theemployees shares in common and are used to propel the organization in meeting its

objectives. This study measures organizational culture in four dimensions, namely; Clan culture, Adhocracy culture, Hierarchical culture and Market culture. Clan culture refers to family-like corporateenvironment collaboration that emphasizes on consensus among all the members of the corporation in fulfilling a common goal (Golafzani& Chirani, 2016). Adhocracy culture on the other hand is defined as flexible and adoptable way of running of organization and this type of organizational culture lacks formal structures as opposed to bureaucracy.

Hierarchical culture refers to corporate culture whereby there are defined structures and levels of governance. The activities to be done are ranked according to their level of priority and execution of the activities is based on those levels. Market culture on the other hand refers to the organizational models theemphasizes on competitiveness among employees and also among other organizations offering the same services (Yesil & Kaya, 2013). Leadership refers to the action of offering guidance and spearheading activities of an organization. In the context of State Corporation, leadership refers to ability of state corporations to plan and maintain flexibility and empower junior staff to make decisions geared towards making the state corporation perform better (Nyangoka, 2016).

1.1.1.Global Perspective on effects of Co-prorate Governance on financial performance

In India, Angappapillai and Kandasamy (2017) noted the presence of financial challenges within theenergy sector in the country. Focusing on Tamil Nadu electricity board, Angappapillai and Kandasamy (2017) noted financial loss from the period covering 2002 to 2014 in which the costs of running the company exceeded the generated revenues. Tamil Nadu electricity board has therefore had to depend of grants from Indian government. In Romania, Paun (2017) noted challenges with the financial performance of energy sector companies in the country. Categorizing theenergy sector companies in terms of their energy sources as to either wind based or solar based, Paun (2017) noted that the wind based had

financial losses for 2013, 2014 and 2015 financial years. In Germany, Chazan (2017)Uniper power company made a loss of 3.2 billion euros in the financial year 2016.

The internal controls that influence financial performance aspects include the control environment, control activities, and monitoring of financial activities (Etengu& Amony, 2016). Various financial performance aspects are influenced by availability of the control systems to safeguard assets and manage risks, adequacy of the control activities in ensuring authorization of transactions, and systems for assessing the adequacy of internal controls (Oppong, Owiredu, & Abedana, 2016). In the context of stakeholder management, various strategies have been used to establish its influence on financial performance. These include offensive strategy, defensive strategy, swing strategy and hold strategy. Other variables include stakeholders' involvement in risk planning, identifying roles responsibilities of different stakeholders, procurement of materials and equipment and coordinating people and resources (Hassan, 2012). Studies by Golafzani and Chirani (2016), Yesil and Kaya (2013), and Juma (2015) indicate that the clan culture, adhocracy culture, market culture and hierarchy culture are components of organizational culture that have positive influence on financial performance.

1.1.2 Local Perspective of Effect of Corporate Governance on Financial Performance

In Nigeria, Mishra (2018) noted that electricity distribution companies have continually made financial losses during electricity distribution aspects. In this context, Mishra (2018) noted that electricity distribution firms lost over 20 billion Nairas through collection challenges after electricity distribution. This was occasioned by the challenges faced by electricity distribution firms in which only 40% of the customers were paying for their electricity while rest were connected to theelectricity grid illegally. Abdullahi (2016) indicate that amongst the aspects of internal controls that influence financial performance are internal audits, internal controls systems, and internal monitoring.

Other aspects as indicated by Bett and Memba (2017) include risk assessment and information system.Diba (2011) indicated that amongst the stakeholder management aspects that influenced project sustainability are stakeholder identification and analysis, stakeholder communication and engagement and stakeholder empowerment. Stakeholders need to be made aware who the real owners of the project are and awareness created of what they should do and there after the project donors exit as well as how they can contribute towards the sustainability of projects.

In terms of leadership, aspects including sales performance, transactional leadership, and transformational leadership influence financial performance as indicated by Flanigan, Stewardson, Dew, Fleig-Palmer, and Reeve (2013)and Flanigan, Bishop, Brachle, and Winn (2017). Various components of transformational leadership including inspiration, consideration and intellectual stimulation influenceemployee performance as indicated by Mwongeli (2016). Strategic leadership components that significantly predict performance include resources allocation, clear processes in work allocation, and employee competences considerations (Nyangoka, 2016). Leadership styles have varied influence on performance (Wachaga, 2017). These leadership styles include transformational leadership, autocratic leadership, democratic leadership, and permissive leadership.

1.1.3.Energy Sector Parastatals

Kenya has diverse parastatals within theenergy sector. According to Ministry of Energy., (2018) these parastatals include Kenya Power, Kenya Electricity Generating Company, Geothermal Development Company, and Kenya Electricity Transmission Company. The Kenya Power is involved in transmission and distribution of electricity to theend consumers while Kenya Electricity Generating Company is involved in electricity generations aspects (Ministry of Energy., 2018). The Geothermal Development Company is involved in geothermal electricity generation while Kenya Electricity Transmission Company seeks to

plan, design, construct, own, operate and maintain new high voltage (132kV and above)electricity transmission grid and regional inter-connectors (Ministry of Energy., 2018).

1.2   Statement of the Problem

The state corporations in theenergy sector often have diverse financial performance challenges. For example, Energy sector statecorporations was forced to sack eighteen staff and blacklist 350 firms that were involved in illegal contracting practices at the firm (Mutavi, 2018). Thereare also diverse financial performance challenges that wereevident in theEnergy sector State Corporation's audited books for the financial year ended 30th of June, 2017. These aspects included unrecovered fuel costs of up to 10.1 billion shillings which was a huge amount considering the company had a pre-tax profit of 10.9 billion in that financial year(Kisero, 2018). The audited reports indicated a negative working capital and a Sh121 billion debt burden(Kisero, 2018). At the Geothermal Development Company (GDC), the auditor general has raised queries on the value for money in relations to some of the procurement contracts. One of these contracts is a 1.7 billion shillings rig-moving deal awarded to Bonfide Clearing and Forwarding Limited to move the rigs a distance of 11 kilometres(Mutai, 2016). The value for money aspect was raised considering the same company charged Ken Gen Ksh 20 million per rig to cover a longer distance of 15 kilometres compared to that of GDC of Ksh42 million per rig to cover a shorter distance of 11 kilometres (Mutai, 2016).

Diverse scholars have noted that corporate governance aspects such as stakeholder management, leadership, organizational culture and internal controls have influence on financial performance of organizations. In this context, Etengu and Amony (2016)examined the role of internal controls on the financial performance aspects within the context of Non-Governmental Organizations in Uganda. Focusing on deposit taking saccos, Kinyua, Amuhaya, and Namusonge (2015) did a study on stakeholders management strategies and

financial performance of the deposit taking saccos in Kenya. These studies present both a conceptual and contextual gaps as they have not examined the roles of corporate governance aspects (organizational culture, stakeholder management, organizational culture, and leadership) on the financial performance of energy sector state corporations which is the focus of this study.

1.3   Purpose of the Study

1.4   Objectives of the Study

1.4.1   General Objective

The general objective of the study was toexamine theeffect of corporate governance on financial performance of Energy sector state corporations in Kenya.

1.4.2   Specific Objectives

This study sought to meet the following specific objectives;

i)   To examine the influence of internal controls on the financial performance of Energy sector state corporations in Kenya

ii)   To establish the influence of stakeholder management on the financial performance of Energy sector state corporations inKenya

iii)   To assess the influence of organizational culture on the financial performance of Energy sector state corporations inKenya

iv)   To explore theinfluence of leadership on the financial performance of Energy sector state corporations inKenya

1.5   Research Hypotheses

The study was conceptualized to address the following research hypotheses;

H_{01}: There is no statistically significant influenceofinternal controls onfinancial performance of Energy sector state corporations inKenya

H$_{02}$: There is no statistically significant influenceof stakeholder management on financial performance of Energy sector state corporations inKenya

H$_{03}$: There is no statistically significant influenceoforganizational cultureon financial performance of Energy sector state corporations inKenya

H$_{04}$: There is no statistically significant influenceofleadership on financial performance of Energy sector state corporations inKenya

1.6   Significance of the Study

This study is of great significance in examining theeffect of corporate governance on financial performance of Energy sector state corporations in Kenya. This study specifically examined the role of internal controls on the financial performancewhich will help theEnergy sector state corporations to monitor its accounting and auditing operations for achievement of its set objectives. Since the study established the influence of stakeholder management on the financial performance, these findings are beneficial to Energy sector state corporations inunderstanding the importance of involving stakeholder in its operations. The study also helps theEnergy sector state corporations to address issues relating to organizational culturewith an aim of improving its financial performance. The findings of this study help the top management of Energy sector state corporations in offering better leadershipto improve its financial performance. The recommendations from this study are of great importance in improving the performance of Energy sector state corporations throughtheirinternal controls, stakeholder management, organizational culture and their leadership. Future researchers and academicians in corporate governance benefit from this study as it contributes to theexisting literature in the subject matter.

1.7   Scope of the Study

This study was carried out in energy sector state corporations inKenya. The content scope of this study was four corporate governance aspects that are hypothesized by the researcher to affect the financial performance of an organization. These aspects areinternal controls, stakeholder management, organizational cultureand leadership. This study sampled154 respondents who comprised of senior management officials in charge of the various activities and departments in energy sector state corporations.The study was undertaken in a period of five months beginning in July 2018

1.8   Limitations and Delimitations of the Study

Due to the sensitivity of financial data of an organization, therespondents of this study were hesitant to provide the information needed for this study. To overcome this limitation, the researcher served the respondents with introduction letter from Kabarak University that helped in outlining the purpose for the study. The researcher also verbally assured the respondents that the information they provided would be confidential and only used for academic purposes. Since the study sought to obtain its data from senior management team in charge of the various activities and departments in energy sector state corporations, the researcher expected the respondents to be too busy in their daily duties which could have prolonged data collection exercise. This limitation was overcome by drop-off and pick-up questionnaire distribution method. This involved giving questionnaires to study respondents and then picking the questionnaires after two weeks period to provide ample time for respondents to fill the questionnaire. This helped in achieving high questionnaire return rate.

The study was limited in scope in various aspects that areexpressed as delimitations of the study. There are various aspects of corporate governance that can possibly affect the financial performance of an organization, but this study was only delimited to internal controls, stakeholder management, and organizational culture and leadership aspects. However, the

delimitations of this study did notaffect thegeneral outcome of the study sincethe corporate governance aspects studied are the most used measures of corporate governance and that energy sector state corporations are centrally governed and thereforeevery region operates in a similar manner.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two gives the literature review. The chapter covers the following sections; the theoretical review, empirical review, knowledge gap and conceptual framework.

2.2 General Overview

The empirical review of the study was based on the specific objectives of the study.

2.2.1 Internal Controls and Financial Performance

Focusing on the Non-Governmental Organizations in Uganda, Etengu and Amony (2016)examined the role of internal controls on the financial performance aspects. Cross sectional survey design was used and sample size of 70 respondents utilized for the study. The internal controls wereexamined using three broad indicators that is control environment, control activities, and monitoring of financial activities. Using simple linear regression analysis, the study found that control activities accounted for 22.4% of the variance in the financial performance of NGOs in Uganda due to a coefficient of determination of 0.224. Etengu and Amony (2016) further found that a unit increase in control environment leads to 1.472 increase in financial performance of the NGOs.

These results were found to be statistically significant at 5% level of significance due to a p value of less than 0.05. The study further found that control activities accounted for 24.8% of variance in financial performance of NGOs. This was due to a coefficient of determination of 0.248. Using simple linear regression analysis, the study found that a unit increase in control activities led to 0.393 increase in financial performance due to a beta weight of 0.393. This result was significant at 5% level of significance. Finally, Etengu and Amony (2016) found that monitoring of the financial activities accounted for 26.8% variance in financial performance with a unit increase in the monitoring aspects leading to 1.532 increase in

financial performanceaspects.In Accra Ghana, Oppong, Owiredu, and Abedana (2016)examined the role of internal controls and financial performance of the faith based NGOs within the country. The study utilized a sample size of 150 respondents that were drawn from the senior management of NGOs which purposively sampled. The study utilized only descriptive statistics to undertake the data analysis of the study. In examining the availability of the control systems to safeguard assets and manage risks, a cumulative percentage of 47% of the respondents were affirmative the availability of these control systems. In respect to the adequacy of the control activities in ensuring authorization of transactions, a cumulative percentage of 76% of the respondents were affirmative on the adequacy of the control activities. Finally, a cumulative 57% of the respondents were affirmative that there were systems to assess the adequacy of internal controls.

Focusing on the higher education in Puntland, Abdullahi (2016)examined the role of internal controls on the financial performance of higher education systems. The research design that was utilized for the study was the quantitative survey design. Structured questionnaires were administered to 30 respondents that were used for the study. The 30 respondents had been drawn from accounts and finance personnel, deans and head of departments of universities in Puntland state of Somalia. The internal controls activities wereexamined using internal audit and internal monitoring aspects within the universities. The study found that there was a positive correlation between diverse aspects of internal controls; internal audits and financial performance (correlation of 0.815); internal controls systems and financial performance (correlation of 0.08); internal monitoring and financial performance (correlation of 0.88).

In Kenya, Bett and Memba (2017)examined the role of internal controls on the financial performance of processing firms in Kenya with a focus on Menengai company.

The study adopted a survey descriptive design and 189 respondents were used in thestudy that were derived using census. The study used three major indicators for the internal controls aspects that is control environment, risk assessment and information systems. Using regression analysis, the study found that internal control aspects accounted for 43.2% of the change in the financial performance due to R square of 0.432. Bett and Memba (2017) further found that a unit increase in control environment, risk assessment and information system led to a 1.002, 0.990, and 0.024 increase in financial performance respectively. These results were statistically significant at 5% level of significance.

2.2.2. Stakeholder Management and Financial Performance

Stakeholder management aspects may affect thefinancial performance of an organization in diverse ways. Okoko (2017)carried out study on stakeholder involvement and management in the strategic change at the African Medical and Research Foundation (AMREF)in Kenya. Among the specific objectives of the study was to explore the role and effect of stakeholder involvement and management in the implementation of strategicchangein AMREF. The study used a case study research design whereby finance department, monitoring and evaluation department, ICT department and human resource departments were purposively sampled. The sample size for the study was 40 staff members from the departments.

The study used interview guides for primary data and organizations' reports and strategic plans for secondary data. The study established that stakeholder involvement was very low and limited to management teams only. It was established that only top-down communication mechanism was encouraged in theorganization.Focusing on deposit taking saccos, Kinyua, Amuhaya, and Namusonge (2015)did a study on stakeholders management strategies and financial performance of the deposit taking saccos in Kenya. The study used descriptive research design in meeting the set study objectives.

Thestakeholders' management strategies that were dealt with included offensive strategy, defensive strategy, swing strategy and hold strategy. This study targeted all the 180 deposit taking saccos in Kenya from which a sample of 64 deposit taking saccos was picked. From the sample 64 deposit taking saccos, the study used a sample of 130 respondents. In gathering data for the study, structured questionnaires were used. Using regression analysis, the study established that Offensive Strategy (R^2=0.511) defensivestrategy (R^2=0.489), Swing Strategy (R^2=0.614) and HoldStrategy (R^2=0.498) were significant predictors of financial performance of the deposit taking saccos in Kenya. The influence of the various strategies was statistically significant at0.05 significancelevel.

A study by Adan (2012)examined the influence of stakeholders' roleon the performance of projects funded by Constituencies Development Fund(CDF) in Isiolo North Constituency. The study utilized descriptive research design and targeted all the 155 CDF projects in Isiolo North Constituency. From the 155 CDF projects, this study purposively sampled 15 of the projects from which data was collected. A sample size of 160 respondents was arrived at using stratified proportionate random sampling technique. Semi structured questionnaires and interviews were used to collected data from the sampled respondents.

Using a five-point Likert Scale runningfrom 1= Strongly Disagree to 5=Strongly Agree, the study established that stakeholders on average agreed that they were involved inrisk planning (mean=4.09) identifying roles responsibilities of different stakeholders (mean=4.41) procurement of materials and equipment (mean=4.49) and coordinating people and resources (mean=4.44). Based on Compassion International in Kilifi District, Diba (2011)did a study on the influence of stakeholder management on project sustainability. The aspects that were studied under stakeholder management included stakeholder identification and analysis, stakeholder communication and engagement as well as stakeholder empowerment. The study used descriptive research design to meet its activities.

The target population for the study was 238 beneficiaries of Compassion International projects in Kilifi District. The beneficiaries comprised of child development workers, members of partner churches, parents and children from the communities around. A sample of 127 respondents was selected through random sampling. The study gathered its data through the administering questionnaires to study respondents. The study established that only 23.1% of stakeholders knew who the real owners of the project were and that most of respondents (56.4%) were not aware of what to do next after the project donorsexit which threatened the project sustainability. The study respondentscited that they werenot empowered in regard of what they are supposed to contribute towards the sustainability of projects by Compassion International as indicated by high frequency (61.2%) on this metric.

2.2.3. Organizational Culture and Financial Performance

The organizational culture has influence on the financial performance in diverse ways. Golafzani and Chirani (2016) undertook a study that examined the role of organizational culture on the financial performance of manufacturing firms. The study utilized a sample size of 247 firms located in theGuilan Park in Iran. Structured questionnaires were administered with a view of obtaining quantitative data from the study. The organizational culture was examined using four components that is clan culture, adhocracy culture, market culture and hierarchy culture. Using correlation analysis, the study found that the diverse components of organizational culture were positively correlated with financial performance as follows; clan culture and financial performance (correlation coefficient of 0.65); adhocracy and financial performance (correlation coefficient of 0.63); market culture and financial performance (correlation coefficient of 0.68); and hierarchy culture and financial performance (correlation coefficient of 0.59). These relationships were found to be statistically significant at both 1% and 5%.

Using a sample size of 500 respondents that were purposively derived, Yesil and Kaya (2013)examined the role of organizational culture on the financial performance of firms in Turkey. The study achieved a response rate of 18% and thus 54 questionnaires were used for the study. Similar to GolafzaniandChirani (2016), Yesil and Kaya (2013) used four broad metrics to measure the organizational culture aspects that is clan, adhocracy, market and hierarchical cultures. Using regression analysis, the study found that organizational culture accounted for 73% of the variance in the financial performance of the Turkish firms. The study further found that a unit increase in clan culture, adhocracy, market and hierarchical culture led to 0.023, 0.078, 0.078, and -0.124 change in financial performance. These results were found to be statistically significant at 5% level of significance.

Focusing on the Kenya airways, Juma (2015) undertook a study that sought to examine the influence of organizational culture and financial performance. The study used a sample size of 90 respondents that were derived from 874 management staff from the airlines. In respect to theexistence of the clan culture, the study using a five likert scale (1=Strong Disagree to 5=Strongly Agree) the study found that on average respondents were neutral with a mean of 3.3 on theexistence of clan culture. Juma (2015) further found that clan culture was positively correlated with the organizational performance at 0.557. The study further found that on average the respondents tended to agree on the performance of adhocracy culture due to a mean of 3.6 in a five point likert scale. The study found that there was a positive correlation between adhocracy culture and organizational performance at 0.611. Finally, Juma (2015) found that in respect to the performance of the hierarchical culture the respondents on average tended to agree on existence of the performance of hierarchical culture due to a mean of 3.6. The study further found that hierarchical culture was positively and significantly correlated with organizational culture at 0.561.

Finally, the study noted that on average tended to agree that on the performance of market culture due to a mean of 4.1 in a five point likert scale. The study further found that market culture and organizational performance were positively and significantly correlated at a correlation coefficient of 0.323.In a study based on the microfinance institutions in Kenya, Owino (2014)examined amongst others the role of organizational culture on the financial performance. The study utilized a cross sectional descriptive research design and a target population composed of all the microfinance institutions in Kenya. Structured questionnaires were utilized for the study. Using Return on Assets (ROA) as one of the metrics of financial performance, Owino (2014) found that a unit increase in organizational culture led to -0.556 influence on the ROA due to a beta weight of -0.556 in the simple linear regression. This relationship was however due to chance as the same was not statistically significant at 5% level of significance.

2.2.4. Leadership and Financial Performance

The leadership of an organization is critical in the financial performance of that organization. Flanigan, Stewardson, Dew, Fleig-Palmer, and Reeve (2013) undertook a study that examined the role of leadership and financial performance of industrial distributor. The study based in the United States of America in which 220 branch managers of an industrial distributors wereengaged in the study as the target population. A response rate of 45% was achieved and thus 100 structured questionnaires were received. The financial performance was examined using sales and margin performance. Using correlation analysis, the study found that transformational leadership was positively correlated with sales and margin performance at correlation coefficients of 0.349 and 0.312 respectively. The study further found that transactional leadership was negatively correlated with sales performance at a correlation coefficient of -0.095. Using regression analysis, the study found that that a unit increase in leader's own rating of transformational leadership would lead to a 0.044 increase

in financial performance. These results were statistically significant at 5% level of significance due to a p value of 0.002. Flanigan et al., (2013) further found that a unit increase in leader's rating of own transactional leadership would lead to -0.033 decrease in sales performance. These results were however not statistically significant.

In a study focusing on the small businesses in the United States, Flanigan, Bishop, Brachle, and Winn (2017)examined the role of leadership on firm performance. The study was based in United States of America and distributed questionnaires to 97 respondents. Using regression analysis in theexamination of leadership influence on organizational performance, the study found transformational leadership and transactional leadership had beta coefficients of 0.043 and -0.014 respectively. This implied that a unit increase in transformational leadership and transactional leadership would lead to 0.043 and -0.014 increases in sales performance respectively. These results were found to be statistically significant at 5% level of significance.

Focusing on Safaricom Limited, Mwongeli (2016)examined the role of transformational leadership on theemployee performance in the firm. Correlation research design was used for the study. The target population of the study was 1092 staff of Safaricom Moi Avenue branch. A sample size of 109 respondents that were derived using proportionate random sampling was utilized. The transformational leadership was examined using three components, that is, inspiration, consideration and intellectual stimulation. Using multiple linear regression analysis, Mwongeli (2016) found that intellectual stimulation had the highest influence on employee performance at a beta weight of 0.783 followed by inspiration at regression coefficient of 0.051. Nyangoka (2016) in a study focusing on the county government of Kakamega County sought to examine the influence of strategic leadership and performance of the county government.

To achieve his objective, a descriptive cross sectional survey design was utilized in the study with a target population of 42 commercial banks. Structured questionnaires were utilized for the purposes of data collection aspects. Nyangoka (2016) found that strategic leadership accounted for 87.6% of the variance in performance due to an R square score of 0.876. The strategic leadership components that were utilized included resources allocation, clear processes in work allocation, and employee competences considerations. These aspects were found to be significant predictors of performance with the county government of Kakamega.

Finally, Wachaga (2017)examined the influence of diverse leadership styles on the performance of insurance projects with a focus on theeagle insurance firm. To achieve its objectives, the study utilized a descriptive survey research design and a sample size of 90 respondents. Using correlation analysis, the study found diversecorrelationeffects between diverse leadership styles and performance as follows; transformational leadership and performance (correlation of 0.849); autocratic leadership and performance (correlation of 0.463); democratic leadership and performance (correlation of 0.793); and permissive leadership and performance (correlation of 0.337).

2.3. TheoreticalFramework

The theoretical review of the study was based on the agency theory, resource based theory, and Stakeholders' theory.

2.3.1.Agency Theory

Agency theory was developed by Jensen and Meckling in 1976 to describe relationships that exists in work place (Mitnick, 2011). Agency theory describes how one executive member (principal) of an organization engages another member (agent) to perform some duties for a common interest. This is done to make sure that there is division of labour and efficiency in performance. Though the principal-agent relationship works towards a common goal, the

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agent may display undesired self-interest. These undesired behaviours are called principal-agent problems (Yap, Saleh, & Abessi, 2011). The agency pproblem arises where the two parties have different interests and asymmetric information (that is, the agent having more information than the principal and therefore displaying moral hazard (that is, agent taking risk since the principal will bear the cost of the risk) (Godeanu, 2012). Therefore, the principal may put in place control mechanisms to ensure the agent delivers to the expectations of the principal. In corporate governance, these control mechanisms includes internal controls measures. The agency theory has been critiqued in diverse ways. Some of its assumptions have been critiqued through the potential of absence of information asymmetry and conflicting interests rendering the theory useless.

The theory is applicable in this study to explain the role of internal controls on the financial performance. In this context, the study has been used by other scholars examining aspects of internal controls. This theory was used by Serem (2016) in a study to establish the relationship between internal management controls and efficiency of service delivery of commercial banks in Kenya. The agency theory is thus important in this study because internal controls are useful in eliminating agency problems challenges. Amongst the aspects of internal controls that are useful in this regards include systems to assess the adequacy of internal controls, frequency of internal audit, control systems for risk management, control systems to safeguard assets, and control activities in authorization of transactions.

2.3.2. Stakeholders Theory

This theory was developed by Freedman in 1983 to explain how an organization creates value for its stakeholders by converting their contribution to the organization to profits (Kangarlouei et al., 2013). Stakeholders' theory states that a firm is a system of stakeholders drawn from the immediate society in which the firm operates and provides the necessary ingredients or support for the firm's activities. The theory explains that stakeholders are

people who benefit from organizations' activities or even are harmed by the same organizational activities (Nulawadin, 2012). Stakeholders have a claim on organizations proceeds since they are the owners of the organization and expect reward for their involvement in organization's activities (Gherghina, 2015). The theory works on the principal of mutual benefit. Mutual benefit refers to the association whereby the stakeholder benefits from the organization while the organization benefits from the stakeholder.The stakeholder theory is important in this study in the context that diverse stakeholder management aspects such as stakeholder involvement, stakeholder identification, stakeholder communication, stakeholder engagement and stakeholder empowerment have been noted to have an influence on financial performance.

2.3.3.Resource Based Theory

Resource based theory was developed by Berney in 1991 to explain how management of an organization concentrates on the internal assets and capabilities of the organization to achieve a competitive advantage (Acedo, Barroso, & Galan, 2006). The theory states that organizations have different types of resources and therefore upon utilization of the resources, each firm achieve different levels of competitive advantage (Loi, 2016). In other words, the theory proposes that firms are heterogeneous because they possess different resource mixes and therefore management teams adopt different strategies to keep up with competition (Acedo et al., 2006). On corporate governance competitive positioning include price positioning, service positioning, innovation positioning and quality positioning. The competitive positioning heavily depends on the firm leadership and organization culture. Leadership and organizational culture can be viewed as intangible resources within the energy sector state corporations. The manner in which these resources are utilized would thus have an influence on the financial performance of energy sector state corporations.

2.4.Knowledge Gap

Various reviewed studies have contextual gaps with the current study as they were not based in Kenya. These include studies by Etengu and Amony (2016) and Oppong, Owiredu, and Abedana (2016) that examined the role of internal controls in Uganda and Ghana, respectively; Golafzani and Chirani (2016) and Yesil and Kaya (2013) studies that examined the role of organizational culture in companies in Iran and Turkey, respectively; Flanigan, Stewardson, Dew, Fleig-Palmer, and Reeve (2013) and Flanigan, Bishop, Brachle, and Winn (2017) studieson leadership and financial performancein the United States of America. The study by Etengu and Amony (2016)presents a conceptual gap as it only indicates the role of internal controls on financial performance. Thecurrent study filled this gap by determining therole of internal controls and its interrelationshipwithother factors including stakeholder management, organizational culture, and leadership. The current study also sought to establish the combined effect of the four factors on financial performance.

The studies that have methodological gaps with the current study include a study byOppong, Owiredu, and Abedana (2016)that utilized purposive sampling to pick sample members and descriptive statistics for data analysis. The current study used a census approach which ensured that data was collected from every member of the target population thus eliminated researcher bias which might have been presented by purposive sampling. While the study by Oppong, Owiredu, and Abedana (2016) depended on descriptive statistics alone, the current study in addition to descriptive statistics utilize inferential statistics which assisted to determine thehow the variables impact financial performanceand allow for predictions and conclusions to be made. Mwongeli (2016) in a study focusing on Safaricom Limited used proportionate random sampling for sample selection. While this method presents a fair method of selecting sample members and marginally eliminates bias, it is still subject tosampling error.

This was addressed by the current study through censuswhich ensured a higher degree of statistical confidence is attained.Okoko (2017) in a study on strategic change at AMREF used interview guides for primary data collection. This poses a methodological gap from the current study that collected primary data using structured questionnaires. The interview might present challenges in data analysis sincethe data collected isqualitative nature and it might be difficult to get accurate description of participant responses when sorting responses to open questions. In addition, there is possibility of interviewer effect that might affect the quality of data.

This gap was filled by the current study that used structured questionnaires thus made it easy for the qualitative data to be converted to quantitative form and the closed questions ensured therewere uniform responses. A similar methodological gap exists in a study by Hassan (2012) on CDF projects in Isiolo North Constituency that used semi structured questionnaires and interviews to collect data from respondents.Nyangoka (2016) study on strategic leadership and performance of Kakamega County Government utilized descriptive cross sectional survey design with a target population of 42 commercial banks. Therefore thereexists a methodological gap in the study that was addressed by the current study which adopted a case study design. Thefocus on one unit presented deeper insights into the concept, thus this gap was addressed.

2.5.Conceptual Framework

This study examined the roles of internal controls, stakeholder management, organizational culture, and leadership on the financial performance of energy sector statecorporations inKenya. The conceptual framework as shown in Figure 2.1 outlines the interrelationship of the independent variables and the dependent variable. The independent variables areinternal controls, stakeholder management, organizational culture, and leadership while the dependent variable is financial performance.The indicators that were used to evaluate the role of internal

controls on financial performancewere systems to assess the adequacy of internal controls, frequency of internal audit, control systems for risk management, control systems to safeguard assets, and control activities in authorization of transactions.

The indicators that were used to measure theeffect of stakeholder management include stakeholder involvement, stakeholder identification, stakeholder communication, stakeholder engagement, and stakeholder empowerment. Chain of command in decision making, communication on policies, teamwork, customer focus, and innovation were indicators used to examine the influence of organizational culture whilestrategic response to budget requirements, supervision of internal controls, value for money from operational processes, acquisition of organizational assets, and disposal of organizational assets are the indicators that were used to evaluate the influence of leadership on financial performance.

The indicators that evaluated theeffect of corporate governance on financial performanceinclude adherence to financial regulations, estimates of expenditure conformity with strategic plan, and estimates of revenue conformity with strategic plan, sufficiency of estimates of expenditure for operations, and achievement of estimates of revenue.The intervening variable for the study is organizational mandate. The organizational mandate of the energy state corporations refers to expectationsin line with programs and services they offer (Etengu & Amony, 2016). The energy state corporations in the study have different mandates including transmission and distribution of electricity to the end consumers, electricity generation, geothermal electricity generation, and planning, designing, construction, operation and maintenance of electricity transmission lines and associated substations. The differences in organizational mandates of these state parastatals canresult in varied effect of corporate governance on their financial performance.

Independent Variables   **Dependent Variable**

```
┌──────────────────────────────────────┐
│ Internal Controls                    │
│  • Systems to assess the adequacy of │
│    internal controls                 │
│  • Frequency of internal audit       │
│  • Control    systems    for    risk │
│    management                        │
│  • Control systems to safeguard assets│
│  • Control activities in authorization of│
│    transactions                      │
└──────────────────────────────────────┘

┌──────────────────────────────────────┐
│ Stakeholder Management               │
│     • Stakeholder involvement        │
│     • Stakeholder identification     │
│     • Stakeholder communication      │
│     • Stakeholder engagement         │
│     • Stakeholder empowerment        │
└──────────────────────────────────────┘
                                                ┌──────────────────────────────────┐
┌──────────────────────────────────────┐        │ Financial Performance             │
│ Organizational Culture               │        │                                   │
│     • Chain of command in decision   │        │  • Estimates of expenditure       │
│       making                         │        │    conformity with strategic      │
│     • Communication on policies      │        │    plan                           │
│     • Teamwork                       │        │  • Estimates   of   revenue       │
│     • Customer focus                 │        │    conformity with strategic      │
│     • Innovation                     │        │    plan                           │
└──────────────────────────────────────┘        │  • Sufficiency of estimates       │
                                                │    of expenditure                 │
┌──────────────────────────────────────┐        │  • Achievement of estimates       │
│ Leadership                           │        │    of revenue                     │
│  • Strategic  response  to  budget   │        └──────────────────────────────────┘
│    requirements                      │
│  • Supervision of internal controls  │
│  • Value for money from operational  │
│    processes                         │
│  • Acquisition of organizational assets│
5 │  • Disposal of organizational assets │
└──────────────────────────────────────┘

                                    ┌──────────────────────┐
                                    │ Organizational       │
                                    │ Mandate              │
                                    └──────────────────────┘
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Intervening Variable

Figure 1:Conceptual Framework

Source: Researcher(2018)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1Introduction

Chapter three gives the research methodology that this study used. The chapter contains the following sections; research design, target population, sampling and sampling techniques, data collection instruments, validity and reliability of the research instruments, pilot test, data analysis techniques and concludes with presentations and ethical considerations.

3.2.Research Design

Research design refers to the strategy used to integrate various aspects of study in a logical manner in order to answer the research objectives of the study (Kombo & Tromp, 2009). According to Saunder, Lews, and Thornhill (2009) research design refers to the methodological guidelines a researcher uses to collect data, analyse and report the findings of the study. This study was guided by explanatory research design to collect data, analyse and report the findings of the study. Theexplanatory research design explains how one variable influences another variable(Orodho, 2003). This research design was used in this study to describe how corporate governance affects financial performance of theenergy sector state corporations. Theexplanatory research design is important in understanding how each independent variable has an influence on the dependent variable(Upagade& Shende, 2012). This research design is advantageous in that it can be able to use various forms of data and also it can incorporatequantitative data(Shirish, 2012). It is due to these advantages of descriptive research design that the researcher adopted the design into this study

3.3. Location of the study

The study was done in energy sector corporations in Kenya.

3.4. Population of the Study

A target population refers to theentire group of people, events or things of interest that the researcher wishes to investigate upon (Upagade& Shende, 2012). Target population refers to the specific population about which information is desired(Orodho, 2003). In other words, a target population is the overall number of people that can bestudied (Sekaran, 2003). The target population for the study was senior management team of energy sector state corporations at their respective head offices. Therewere a total of 154 senior management staff in the finance offices of the diverseenergy sector state corporations such as Kenya Power, Geothermal Development Company, and Kengen.

3.4. SamplingProcedure and Sample Size

3.4.1. Sampling Procedure

According to Sekaran and Bougie (2011) sampling refers to the process of taking a proportion of the population to be studied. Sampling technique on the other hand refers to the methods and procures used to selected respondents in a study(Upagade& Shende, 2012). It refers to the techniques that a researcher applies in order obtain a representative sample for a given study(Saunder, Lews, & Thornhill, 2009). Sampling is a very important because samples that are too large may waste time, resources and money, while samples that are too small may lead to inaccurate results, (Kothari, 2004).This study used acensus to select respondents for this study. Censusrefers to completeenumeration of study objects and therefore the sample size is equal to target population(Kombo & Tromp, 2009). Mugenda and Mugenda(2013) says that census is appropriate where the target population is manageable within both time scope and geographical scopewhich is the case in this study (Jankowicz, 2005). This sampling method presents a zero sampling error and therefore the choice of the

sampling method in this study(Keller, 2014).

3.4.2.Sample Size

The study used a sample size of 154 respondents who comprised of senior management officials in charge of the various activities and departments in Energy sector state corporations.The table below contains the number of respondents;

Table 1: Number of Respondents

	Head of departments	Managers	General Managers	Total
1.Geothermal Dev. Comp	25	14	1	**40**
2.Kenya Power	35	17	1	**53**
3.Kengen	41	19	1	**61**
Total	**101**	**50**	**3154**	

Source: Energy Sector State Corporations

3.5.Data Collection Instruments

Data collection instruments refers to the tools the researcher utilizes to obtain data for a given study(Kothari, 2004). This study obtained its data by using structured questionnaires. Structured questionnaires are data collection tools that present a series of questions that are closed-ended to restrict the researcher from giving unwanted information (Keller, 2014). The advantage of this tool is that is easy to administer and relatively cheaper(Mugenda & Mugenda, 2003). This tool does not need the researcher to be present when the respondents are giving their responses to the questions contained therein (Saunder, Lews, & Thornhill, 2009). The structured questionnaires were divided into six sections. The first section contained questions on background of the respondents. This section obtained data on gender, age, and work experience. Second section gathered data on theextent in which internal controls have affected thefinancial performance of theenergy sector state corporations.

The third section contained questions that were framed to gather data on theextent in which stakeholder management affects the financial performance of theenergy sector state corporations. The fourth section of the questionnaire contained questions in regard to how organizational cultureaffects the financial performance of theenergy sector state corporations. Section five of the structured questionnaire sought to measure theextent in which leadership of energy sector statecorporations affects its financial performance while section six measured theextent of financial performance of theenergy sector state corporations. The questions in section two to six were based on five point Likert scalewhereby; 1=No extent, 2=small extent, 3=moderateextent, 4=great extent, and 5= very great extent. Likert scaleis a coding system which helps to transform qualitative data to quantitative data for easy analysis.

3.6.Pilot Study

According to Keller(2014), a pilot study refers to a preliminary study carried out in small scale to test for various aspects of the proposed study before the full-scale study. This study conducted a pilot study to test the reliability of the research instruments. Mugenda(2003) recommends a pilot study to involve at least 10% of the sample size and warns that the pilot study obtained should not be used for analysis of the final study. The sample study should be carried out among respondents who are not selected for the actual study by shares same characteristics. This study carried out a pilot study among 15 senior management personnel from Energy Regulatory Company in Nairobi County who were not participants in the final study to avoid data contamination.

3.6.1.Validity

Validity refers to how accurate a research instrument is in measuring what it intend to measure (Orodho, 2003). According to Keller(2014)validity refers to the closeness of a

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measuring tool in measuring what the study was conceptualized to measure The more accurate a research instrument is in measuring what it intends to measure, the more valid it is (Mugenda, 2003). To ascertain whether the research instrument is valid, the study used Content Validity Index based on responses given by five content experts in the subject matter who comprised of the research supervisor and four managers in the energy sector state corporations. Content Validity Index refers to the measure of effectiveness of a research tool of all the items of a measuring tool in respect to the construct of the tool (Mugenda & Mugenda, 2003).

3.6.2.Reliability of the Research Instruments

Reliability on the other hand refers to the consistency of research instrument in giving similar results each time is used on the same group of respondents(Orodho, 2003). It also refers to the degree in which research instruments can be depended on to be accurate or true(Sekaran & Bougie, 2011). This study used Cronbach Alpha test of internal consistency to test the reliability of the research instrument based on pilot data. Cronbach Alpha test of internal consistency is recommended by Mugenda(2003) as the best test for reliability where a Cronbach Alpha coefficient of at least 0.7 confirms the reliability of research instrument under testing.

3.7.Data Collection Procedures

Prior to data collection, the researcher first obtained an introduction letter from Kabarak University that helped in outlining the purpose of the study as well as introduced the researcher to the respondents in adherence to ethical standards. Theresearcher then applied for permission to collect data in theEnergy sector statecorporations inKenya from the National Commission for Science, Technology and Innovations (NACOSTI). After receiving this permission, the researcher then visited theEnergy sector statecorporations for introductory purposes. During this visit the researcher sought appointments for data

collection and cooperation from respondents. Then the researcher returned on the scheduled dates to issue research questionnaires. The researcher returned after two weeks to pick the questionnaires. This period helped the study achieve a high questionnaire return rate.

3.8.Data Analysis Techniques and Presentations

After obtaining the study questionnaires from the field, the researcher checked the completeness of the questionnaires after which the questionnaires were coded into Statistical Package for Social Sciences (SPSS) for analysis.SPSS has the capacity to analyse complex data in broad areas of research (Upagade& Shende, 2012). The coding process wasin linewith the Likert scale used in the questionnaire so that thedata could be analysed quantitatively. This study used both the descriptive and inferential statistics to analyse the data. Descriptive statistics involves the use of measures of central tendency and dispersion for describing the basic characteristics of data (Mugenda, 2003). Inferential statistics involves the use of relational analysis to establish the link between study variables(Saunder, Lews, & Thornhill, 2009). For descriptive data analysis, the study used frequencies.Frequency showed the number of times an occurrence is observed. For inferential statistics, Chi Square test of independence, correlation analysis and regression analysis. The multiple linear regression was used to link the independent variables of this study to the dependent variables. Internal controls, stakeholder management, organizational culture and leadership were regressed against financial performance in the following model;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where;

Y = Financial Performance

B_0, B1, B_2, B_3, B_4= Model Coefficients

X_1= Internal Controls

X_2= Stakeholder Management

X_3= Organizational Culture

X_4= Leadership

ε = Error Term

Theentire analysis was presented in form of tables.

3.9.Ethical Considerations

The researcher adhered to all ethical requirements of research. The researcher explained to therespondents the purpose of the study and why they were selected to participate in the study. All study respondents voluntarily participated in the study and if any respondent wished not to participate in the study, they were allowed to do so without any victimization. The researcher sought permission from the National Commission for Science, Technology and Innovations (NACOSTI) to undertake data collection. The confidentiality of the data obtained from the study was observed and the respondents' identity remained anonymous.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONAND DISCUSSION

4.1.Introduction

This chapter shows the results and findings from the analysis of data obtained from the questionnaires. The study sought to determine the effect of corporate governance on financial performance of energy sector state corporations in Kenya. Data analysis was conducted using descriptive statistics and inferential statisticswith resultspresented in form of tables and interpretations and discussions provided.

4.2. General and Demographic Information

4.2.1.General Information

The researcher administered questionnaires to 154senior management officials in charge of the various activities and departments in Energy sector state corporations. The study did not receive 9 questionnaires from respondents during collection as they were not present at their work place. Further, 13 questionnaires were found to be incomplete and were discarded during the data cleaning process. This left the study with 132 completely filled questionnaires which gave a response rate of 85.7%. The response rate achieved for the study was deemed sufficient to proceed to the next stage of analysis using the Statistical Package for Social Sciences (SPSS) software. The minimum response rate recommended for data analysis is 80.0% (Saunder, Lews, & Thornhill, 2009). The results and findings of this study are based on data from the 132 complete questionnaires.

4.3. Demographic Data

The background information of the respondents was brought out by asking them to indicate their gender, age group, and period they had worked for energy state corporations.

a) Gender of Respondents

The respondents were asked to indicate their gender, resultsof which are shown in Table 4.1.

Table 2: Distribution by Gender of Respondents

Gender	Frequency	Percentage
Male	85	64.4%
Female	47	35.6%
Total	**132**	**100.0%**

The study found that the senior management of energy sector state corporationshas more males (64.4%) than females (35.6%). Female respondents were slightly more than a third of the total respondents which could be attributed to the requirement put on state corporations for gender equality that necessitates employees of any gender to be at least a third of the total employees. There was no gender bias since both genders were represented in the study.

b) Age of Respondents

The respondents were asked to indicate the age group they belong to. The results are presented in Table 4.2.

Table 3:Distribution by Age of Respondents

Age Group	Frequency	Percentage
Below 25 Years	0	0.0%
26-35 Years	0	0.0%
36-45 Years	18	13.6%
46-55 Years	49	37.1%
Above 55 Years	65	49.3%
Total	**132**	**100.0%**

The study found that about half (49.3%) of senior management officials at energy state corporations were aged 55 years and above. The senior management officials at energy state corporations aged 46-55 years were 37.1% and those aged 36-45 years were 13.6%. However, the study found that there were no senior management officials at energy state corporations aged 35 years and below (26-35 Years=0.0%; below 25 years=0.0%). In order to reach a senior management position in a state corporation, the employee would be required to have many years of experience which could attribute the higher number of respondents aged 46 years and above.

c) Time Respondent Have Worked for Energy Sector State Corporations

Respondents were also asked to indicate how long they had worked for energy sector state corporations and results shown in Table 4.3. The study found that most of the senior management officials (54.6%) had worked for energy state corporations for more than 10 years. These were followed by senior management officials who had worked for energy state corporations for 6-10 years (28.0%), 1-5 years (12.9%), and below 1 year (4.5%).

Table 4: Distribution by Time Respondent Have Worked for Energy Sector State Corporations

Years	Frequency	Percentage
Below one Year	6	4.5%
1-5 Years	17	12.9%
6-10 Years	37	28.0%
Above 10 Years	72	54.6%
Total	**132**	**100.0%**

The higher number ofsenior management officials who have worked forenergy state corporations for 6 years and above could be attributed to those who have risen through the

ranks at the state corporations. This indicates that the study collected information from respondents who have knowledge on the various aspects of corporate governance that influence financial performance of energy sector state corporations in Kenya.

4.3 Findings for Objective, Research Hypothesis

4.3.1. Internal Controls and Financial Performance

Thestudy sought to examine the influence of internal controls on the financial performance of energy sector state corporations in Kenya. Respondents were asked to indicate their extent of agreement with various statements on internal control aspects. These aspects were systems to assess the adequacy of internal controls, frequency of internal audit, control systems for risk management, control systems to safeguard assets, and control activities in authorization of transactions.

The results of this examination are presented in Table 4.4.

Table 4.4: Likert Scale Summation of Internal Controls

	NE	SE	ME	GE	VGE	Chi Square	
	%	%	%	%	%	Value	P
There are systems to assess the adequacy of internal controls	4.5	21.2	30.3	37.9	6.1	41.254	0.000
The frequency of internal audit is sufficient	3.0	14.4	28.8	50.0	3.8	35.145	0.000
There are control systems to manage risks	2.3	17.4	34.1	38.6	7.6	29.611	0.000
There are control systems to safeguard assets	1.5	12.1	40.9	39.4	6.1	24.385	0.000
There are adequate control activities in authorization of transactions	6.1	8.3	32.6	47.7	5.3	58.767	0.000

The frequency showed the number of times respondents rated statements on the variables on a 5-point Likert scale ranging from: 1= Strongly Agree to 5= Strongly Disagree. The results

were summarised and presented in tables. To establish whether each metric was related to financial performance of energy sector state corporations in Kenya, chi-square test of independence was used. Pearson Chi-square is used when the number of counts in each cell is at least 5 (Mugenda & Mugenda, 2003). When this assumption is violated due to low counts (less than 5 counts), . Chi-square test is a type of a test that gives the exact answer to the question rather than approximate answer to a question as it is the case with Pearson Chi-Square (Orodho, 2003). Chi-square is used to test if two categorical variables are related. The null hypothesis of the Fisher's exact test states that the two categorical variables are independent of each other. Therefore a P-value of chi square test less than 0.05 (significance level), the null hypotheses is rejected and alternative hypothesis accepted. Rejecting the null hypotheses of Chi-square implies that the two categorical variables are related and not independent (Keller, 2014).

Most of the respondents (37.9%) indicated that to a great extent energy sector state corporations have systems to assess the adequacy of internal controls closely followed by those who indicated the extent was moderate (30.3%). Some respondents indicated that to a small extent (21.2%) and great extent (6.1%) energy sector state corporations have systems to assess the adequacy of internal controls closely followed. On the other hand, 4.5% of the respondents had negative attitude and indicated that to no extent do energy sector state corporations have systems to assess the adequacy of internal controls closely followed.Findings of the current study are similar to those of Oppong, Owiredu, and Abedana (2016) in Accra Ghana. In examining the availability of the control systems to safeguard assets and manage risks, a cumulative percentage of 47% of the respondents were affirmative the availability of these control systems. The study established that the availability of systems

to assess the adequacy of internal controls was related to financial performance of energy sector state corporations in Kenya due to a value of Chi Square value of 41.254 and p<0.05.

Half of the respondents (50.0%) indicated that to a great extent the frequency of internal audit in energy sector state corporations is sufficient. Other respondents recorded various levels of agreement including 14.4%, 28.8%, and 3.8% who indicated that to a small extent, moderate extent, and very great extent, respectively, the frequency of internal audit in energy state corporations is sufficient. However, a negligible 3.0% of the respondents indicated that the frequency of internal audit in energy sector state corporations is not sufficient (No extent=3.0%). A Fisher's exact value of 35.145 and p<0.05 indicated that the frequency of internal audit in energy sector state corporations is related to their financial performance.

In respect to systems to manage risks, majority of the respondents (38.6%) indicated that to a great extent there are control systems to manage risks in energy sector state corporations. Similarly, a majority of respondents (39.4%) indicated that to a great extent there are adequate control activities in authorization of transactions in energy sector state corporations (47.7%). The results from Table 4.4 revealed that the control systems to manage risks are related to the financial performance in energy sector state corporations (Fisher's exact value=29.611; p<0.05).

Respondents who agreed that there are adequate control activities in authorization of transactions in energy sector state corporations to a moderate extent were 32.6%, to very great extent were 5.3%, and to a small extent were 8.3%. A few respondents (No extent= 6.1%) had negative attitude towards the statement there are adequate control activities in authorization of transactions. A cumulative percentage of 76% of the respondents in the study by Oppong, Owiredu, and Abedana (2016) were affirmative on the adequacy of the control

activities in ensuring authorization of transactions. The results of the Fisher's exact test gave a value of (Fisher's exact value=58.767; p<0.05) there exists a relationship between the adequacy of control activities in authorization of transactions and financial performance of energy sector state corporations in Kenya.

In regard to control systems to safeguard assets, the study found that most of the respondents (40.9%) agreed that to a moderate extent, there are control systems to safeguard assets of energy sector state corporations. These were followed by respondents who felt the extent was great (39.4%), small (12.1%) and very great (6.1%). A negligible 1.5% of respondents indicated a contrary opinion that there were no control systems to safeguard assets of energy sector state corporations.Similar findings were made by Oppong, Owiredu, and Abedana (2016) in their study on performance of Faith-Based NGOs. A cumulative 57% of the respondents were affirmative that there were systems to assess the adequacy of internal controls. The study established that the control systems to safeguard assets of energy sector state corporations in Kenya are related to their financial performance due to a chi-square value of 24.385 and p<0.05.

4.3.2.Stakeholder Management and Financial Performance

The study also sought to establish the influence of stakeholder management on the financial performance of energy sector state corporations in Kenya. In this regard, the study used five metrics which were stakeholder involvement, stakeholder identification, stakeholder communication, stakeholder engagement, and stakeholder empowerment. The results of this examination are as shown in Table 4.5.

Table 4.5: Likert Scale Summation of Stakeholder Management

	NE	SE	ME	GE	VGE	Chi Square	
	%	%	%	%	%	Value	P
Stakeholders are involved in risk planning	4.5	11.4	28.0	47.0	9.1	35.476	0.000
The roles and responsibilities of different stakeholders are identified	3.0	12.9	37.1	36.4	10.6	32.030	0.000
There is sufficient stakeholder communication	1.5	13.6	28.8	48.5	7.6	48.980	0.000
There is adequate stakeholder engagement during the course of the project	5.3	8.3	34.8	39.4	12.1	42.585	0.000
Stakeholders are empowered towards their role in project sustainability	3.8	11.4	41.7	40.2	3.0	22.359	0.000

The study found that most of the respondents (37.1%) to a moderate extent agreed that the roles and responsibilities of different stakeholders in energy sector state corporations are identified. The respondents who to a great extent agreed on the same were 36.4% while those who agreed to a very great extent and small extent were 10.6% and 12.9%, respectively. On the other hand, 3.0% of the respondents indicated to no extent are the roles and responsibilities of different stakeholders identifiedin energy sector state corporations. A chi square value of 32.030 and p<0.05 established that the identification of roles and responsibilities of different stakeholders are related to the financial performance of energy sector state corporations in Kenya.Similarly, most of the respondents (41.7%) to a moderate extent agreed that the stakeholders in energy sector state corporations are empowered towards their role in project sustainability.

Respondents who to a great extent agreed on the same were 40.2% while those who agreed to a very great extent and small extent were 3.0% and 11.4%, respectively.On the other hand, 3.8% of the respondents indicated to no extent are stakeholders in energy sector state corporations empowered towards their role in project sustainability.Diba (2011) did a study on the influence of stakeholder management on project sustainability and also established that most of respondents (56.4%) were not aware of what to do next after the project donors exit which threatened the project sustainability. Further, the study respondents cited that they were not empowered in regard of what they are supposed to contribute towards the sustainability of projects by Compassion International as indicated by high frequency (61.2%) on this metric. The results of the current study revealed that stakeholders empowerment towards their role in project sustainability and financial performance of energy sector state corporations in Kenya are related (chi-square value of 22.359; $p<0.05$).A cumulative majority of respondents (95.5%) indicated a positive attitudealthough on varying scales of agreement on the extent thatstakeholders are involved in risk planning at sector state corporations.

The respondents indicated stakeholders are involved in risk planningat sector state corporations to a great extent (47.0%), moderate extent (28.0%), small extent (11.4%), and very great extent (9.1%). On the other hand, respondents who had a negative attitude towards stakeholder involvement in risk planning were 4.5% who indicated that there to no extent are stakeholders involved in risk planning at energy sector state corporations.The study results revealed that there exists a relationship between stakeholders involvement in risk planning and financial performance of energy sector state corporations in Kenya (chi-square value of 35.476; $p<0.05$).

In respect to stakeholder communication, almost half of the respondents (48.5) agreed that to a great extent there is sufficient stakeholder communicationin energy sector state corporations. Some respondents also agree but to a moderate extent (28.8%), small extent (13.6%) and very great extent that there is sufficient stakeholder communication in energy sector state corporations. However, 1.5% of the respondents disagreed and indicated that stakeholder communication in energy sector state corporations is not sufficient. The study established that sufficiency of stakeholder communication is related to financial performance of energy sector state corporations in Kenya due to a chi-square value of 48.980and $p<0.05$.

In the context of stakeholder engagement, most of the respondents (39.4%) agreed to a great extent that there is adequate stakeholder engagement during the course of the project. Other respondents in agreement on the same were 34.8% who indicated the extent was moderate, 12.1% who indicated the extent was very great extent, and 8.3% who indicated the extent was small. Respondents who had negative attitude in respect to stakeholder engagement at energy sector state corporations were 5.3% (No extent) who indicated that stakeholder engagement during the course of the project is not adequate. The study found that adequacy of stakeholder engagement during the course of the project and financial performance of energy sector state corporations in Kenya are related (chi square value of 42.585; $p<0.05$).

4.3.3.Organizational Culture and Financial Performance

Assessment of the influence of organizational culture on the financial performance of Energy sector state corporations in Kenya was conducted using five metrics. These were chain of command in decision making, communication on policies, teamwork, customer focus, and innovation. The results of this assessment are shown in Table 4.6.

Table 4.6: Likert Scale Summation of Organizational Culture

	NE	SE	ME	GE	VGE	Chi Square	
	%	%	%	%	%	Value	P
A defined chain of command influences decision making	1.5	13.6	37.1	35.6	12.1	37.230	0.000
There is adequate communication on diverse organizational policies	5.3	12.1	35.6	37.9	9.1	25.594	0.000
Teamwork influences efficiency in execution of tasks	4.5	10.6	34.1	39.4	11.4	31.673	0.000
Customer focus ensures there is consistency in service provision	2.3	14.4	34.8	34.1	14.4	39.201	0.000
Innovation within the state corporation towards efficiency is encouraged	0.0	9.1	35.6	38.6	16.7	15.906	0.008

Majority of the respondents had a positive attitude towards communication on diverse organizational policies (cumulative 98.5%). These included 37.1% who agreed that to a moderate extent there is adequate communication on diverse organizational policies of energy sector state corporations, 35.6 who felt the extent was great, 12.1% who felt the extent was very great, and 12.1% who felt the extent was small. On the other hand, 1.5% (No extent) of the respondents disagreed and indicated that there the communication on diverse organizational policies of energy sector state corporations is not adequate.The study found that adequacy of communication on diverse organizational policies and financial performance of energy sector state corporations in Kenya are related chi square value of 25.594; $p<0.05$).

In respect to chain of command, most of the respondents (37.1%) agreed to a moderate extent that a defined chain of command influences decision making in energy sector state corporations. Some respondents' sentiments on the same were positive though the extent of agreement differed. These respondents were 35.6%, 13.6%, and 12.1% who indicated to a great extent, small extent and very great extent,a defined chain of command influences decision making in energy sector state corporations, respectively. A negligible 1.5% of the respondents (No extent) indicated thata defined chain of command does not influence decision making in energy sector state corporations. It is a finding of the study that there exists a relationship between a defined chain of command in decision making and financial performance of energy sector state corporations in Kenya (chi-square value of 37.230; $p < 0.05$).

In the context of teamwork, most of the respondents (39.4%) indicated that to a great extent it influences efficiency in execution of tasksin energy sector state corporations. Other respondents indicated that to a moderate extent (34.1%), small extent (10.6%), very great extent (11.4%), teamwork influences efficiency in execution of tasks in energy sector state corporations.However, 4.5% of respondents chose the "no extent" prompt indicating that teamwork does not influence efficiency in execution of tasks in energy sector state corporations.The study established that teamwork efficiency in execution of tasks through teamwork is related to financial performance of energy sector state corporations in Kenya due to a chi square value of 31.673 and $p < 0.05$.

In the case of innovation, most respondents (38.6%) agreed to a great extent that innovation towards efficiency within the state corporation is encouraged. Other respondents indicated agreement on the same on varying levels with no respondent having negative attitude (No extent=0.0%). Respondents who agreed to a very great extent, moderate extent, and small extent that innovation towards efficiency within the state corporation is encouraged were

16.7%, 35.6%, and 9.1%, respectively.The study results revealed that encouraging innovation towards efficiency in the energy state corporations in Kenya is related to their financial performance (chi square value of 15.906; $p<0.05$).

In regards to customer focus, 34.8% and 34.1% of the respondents indicated agreed to a moderate extent and great extent, respectively, that customer focus ensures there is consistency in service provision at the state corporation. Some respondents indicated that to a small extent (14.4%) and very great extent (14.4%), customer focus ensures there is consistency in service provision at the state corporation. However, 2.3% of the respondents (No extent) indicated thatcustomer focus does not ensure there is consistency in service provision at the state corporation. The Fisher's exact test gave a value of 39.201 and p-value less than 0.05. This indicated that there exists a relationship between consistency in service provision through customer focus and financial performance of energy sector state corporations in Kenya.

4.3.4.Leadership and Financial Performance

a) Leadership Performance

The study explored the influence of leadership on the financial performance of energy sector state corporations in Kenya based on five indicators. These were strategic response to budget requirements, supervision of internal controls, value for money from operational processes, acquisition of organizational assets, and disposal of organizational assets and results presented in Table 4.7.

Table 4.7: Likert Scale Summation of Leadership

	NE	SE	ME	GE	VGE	Chi Square	
	%	%	%	%	%	Value	P
Leaders use different strategies to respond to budget requirements	3.0	13.6	26.5	43.2	13.6	52.347	0.000
There is supervision of internal controls	2.3	9.8	40.2	36.4	11.4	20.235	0.000
Leaders drive value for money from operational processes	4.5	15.2	37.9	34.1	8.3	34.351	0.000
There is proper acquisition of organizational assets	5.3	13.6	31.8	34.1	15.2	31.546	0.000
There is proper disposal of organizational assets	3.8	16.7	37.1	32.6	9.8	41.612	0.000

In the context of strategic response to budget requirements, most of the respondents (43.2%) seemed to agree to a great extent that leaders of energy state corporations use different strategies to respond to budget requirements. About a quarter of the respondents (26.5%) agreed to a moderate extent thatleaders of energy sector state corporations use different strategies to respond to budget requirements. Other respondent tended to agree to a small extent (13.6%) and very great extent (13.6%) thatleaders of energy state corporations use different strategies to respond to budget requirements. However, 3.0% of the respondents disagreed and indicated thatleaders of energy sector state corporations do not use different strategies (No extent) to respond to budget requirements.The Fisher's exact test gave a value of 52.347and p-value less than 0.05 which indicated that there exists a relationship between leaders' use of different strategies to respond to budget requirements and financial performance of energy sector state corporations in Kenya.

In respect to supervision of internal controls, majority of respondents agreed to a moderate extent (40.2%) that there is supervision of internal controls in energy sector state corporations. Other respondents who tended to agree on the same were 36.4% to a great extent, 11.4% to a very great extent, and 9.8% to a small extent. On the other hand, 2.3% of the respondents indicated there is no supervision of internal controls in energy sector state corporations. The study results revealed supervision of internal controls is related to the financial performancein the energy state corporations in Kenya (ch-square value of 20.235; p<0.05).

In the context of value for money from operational processes, most of the respondents agreed to a moderate extent (37.9%) thatleaders in energy sector state corporations drive value for money from operational processes. The least number of respondents tended to disagree and indicated thatleaders in energy sector state corporations do not drive value for money from operational processes (No extent=4.5%). Respondents who tended to agree to small extent, great extent, and very great extent thatleaders in energy sector state corporations drive value for money from operational processes were 15.2%, 34.1%, and 8.3%, respectively.The chi-square test gave a value of 34.351 and p-value less than 0.05 which indicated that there exists a relationship between leaders' drive towards value for money from operational processes and financial performance of energy sector state corporations in Kenya.

Most of the respondents (34.1%) indicated that to a great extent, there is proper acquisition of organizational assetsin energy sector state corporations. The respondents who indicated moderate extent of agreement that energy sector state corporations properly acquire organizational assets were 31.8% while those who indicated small extent of agreement and very great extent of agreement with the same statement were 13.6% and 15.2% respectively.

The study established that proper acquisition of organizational assets in energy sector state corporations in Kenya is related to their financial performance (chi square value of 31.546; p<0.05).Most of the respondents (37.1%) tended to agree to a moderate extent that energy sector state corporations properly dispose organizational assets. Other respondents who indicated some level of agreement on the same were 32.6% (great extent), 16.7% (small extent), and 9.8% (very great extent). On the other hand, 3.8% of the respondents had a negative attitude and indicated that organizational assets in energy sector state corporations are not properly disposed of.The study found that proper disposal of organizational assets in energy sector state corporations in Kenya is related to their financial performance (chi-square value of 41.612; p<0.05).

b. **Financial Performance**

The financial performance of energy sector state corporations in Kenya was examined using five metrics. These metrics were, estimates of expenditure conformity with strategic plan, estimates of revenue conformity with strategic plan,sufficiency of estimates of expenditure, and achievement of estimates of revenue. The results from the analysis of data are shown in Table 4.8.

Table 5: Likert Scale Summation of Financial Performance

	NE	SE	ME	GE	VGE
	%	%	%	%	%
Preparation of estimates of expenditure always conform to the strategic plan	2.3	6.1	41.7	37.9	12.1
Preparation of estimates of revenue always conform to the strategic plan	1.5	9.1	37.9	40.9	10.6
The estimates of expenditure are sufficient for operations	3.0	11.4	31.1	38.6	15.9
Preparation of estimates of revenue are always met	0.0	7.6	34.1	45.5	12.9

In the context of estimates of expenditure conformity with strategic plan, most of the respondents agreed to a moderate extent (41.7%) that energy state corporations always conform with the strategic plan when preparing estimates of expenditure. Some respondents agreed to a great extent (34.1%) that energy state corporations always conform with the strategic plan when preparing estimates of expenditure. A negligible 2.3% of the respondents tended to disagree that energy sector state corporations always conform to the strategic plan when preparing estimates of expenditure.

In regards toestimates of revenue conformity with strategic plan, 40.9% of the respondents tended to agree to a great extent thatenergy sector state corporations always conform to the strategic plan when preparing estimates of revenue. In addition, 37.9% of the respondents to a moderate extent, 10.6% to a very great extent, and 9.1% to a small extent tended to agree that energy sector state corporations always conform to the strategic plan when preparing estimates of revenue. On the other hand, 1.5% of the respondents (No extent=1.5%) indicated that energy sector state corporations do not always conform to the strategic plan when preparing estimates of revenue.

In the context of sufficiency of estimates of expenditure, 38.6% and 31.1% of the respondents agreed to a great extent and moderate extent, respectively, thatestimates of expenditure by energy sector state corporations are sufficient for their operations. Further, 11.4% and 15.9% of the respondents tended to agree to a small extent and very great extent, respectively, with the statement. A few respondents (3.0%) tended to disagree that estimates of expenditure by energy sector state corporations are sufficient for their operations.

In regards toachievement of estimates of revenue, almost half of the respondents (45.5%) tended to agree to a great extent that energy sector state corporations always meet the preparation of estimates of revenue. In addition, 34.1% of the respondents tended to agree to a moderate extent thatenergy sector state corporations always meet the preparation of estimates of revenue. Further, 12.9% and 7.6% of respondents agreed to a very great extent and small extent that energy sector state corporations always meet the preparation of estimates of revenue, respectively. No respondent tended to disagree that energy sector state corporations always meet the preparation of estimates of revenue (No extent=0.0%).

4.5. CorrelationAnalysis

The Pearson correlation coefficients (r) were used to establish the strength and direction of association of variables. Pearson Correlation coefficient ranges from -1 to +1. A negative sign indicates that the two variables are negatively related and an increase in the independent variable causes a decrease on the dependent variable and vice versa. On the other hand, positive sign indicates that an increase in the independent variable causes an increase on the dependent variable and vice versa.

In other words, a positive correlation implies a directly proportional relationship while a negative correlation implies an inversely proportional relationship (Saunder, Lews, & Thornhill, 2009). A correlation coefficient in the range of -9 to -7 implies a strong negative correlation; -6 to -4 implies a moderate negative correlation; while a correlation coefficient in the range of -3 to -1 implies a weak negative correlation. On the other hand, a correlation coefficient in the range of 1 to 3 implies a weak positive correlation; 4 to 6 implies an average positive correlation; while a correlation coefficient in the range of 7 to 9 implies a strong positive correlation (Kothari, 2004).

The significance of a relationship is indicated by a p-value. P-value gives the probability of occurrence of an event. A p-value less than 0.05 provides strong evidence against the null hypothesis while a p-value greater than 0.05 providesweak evidence against the null hypothesis. The null hypothesis is rejected if the p-value is less than a pre-determined level of significance (0.05). The null hypothesis of Pearson correlation states that there is no relationship between the two measure variables. Rejecting the null hypothesis implies that there is a significant relationship between the two measured variables. A summary of the results is presented in Table 4.9.

The study found that there exists a moderate and positive relationship between internal controls and stakeholder engagement which was significant at 0.05 significance level (r=0.488, α = 0.05). Therefore, an increase in internal controls leads to an increase in stakeholder management and vice versa. The study also found that there exists a moderate and positive relationship between internal controls and organizational culture and which was significant at 0.05 significance level (r=0.545, α = 0.05). This indicates that increase in internal controls leads to an increase in organizational culture and vice versa. Similarly, the study found that a moderate and positive relationship exists between internal controls and leadership and which was significant at 0.05 significance level (r=0.552 α = 0.05). This indicates that increase or decrease in internal controls leads to a parallel increase or decrease in leadership and vice versa.

Table 6: Correlations of Variables

		Internal Controls	Stakeholder Management	Organizational culture	Leadership	Financial Performance
Internal Controls	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	132				
Stakeholder Management	Pearson Correlation	0.488**	1			
	Sig. (2-tailed)	0.000				
	N	132	132			
Organizational culture	Pearson Correlation	0.545**	0.531**	1		
	Sig. (2-tailed)	0.000	0.000			
	N	132	132	132		
Leadershipp	Pearson Correlation	0.552**	0.569**	0.565**	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
	N	132	132	132	132	
Financial Performance	Pearson Correlation	0.802**	0.805**	0.801**	0.832**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	132	132	132	132	132

**. Correlation is significant at the 0.01 level (2-tailed).

Stakeholder management was found to have a positive and moderate association with organizational culture and was significant at 0.05 significance level (r=0.531, α = 0.05). It was further established that stakeholder management had a positive and moderate association with leadership and this association was found to be significant at 0.05 significance level (r=0.569, α = 0.05). This implied that an increase in stakeholder management leads to an increase in organizational culture and leadership and vice versa, respectively. Similarly, organizational culture was found to have a positive and moderate association with leadership (r=0.565 α = 0.05) and this association was found to be significant at 0.05 significance level. This implied that an increase in organizational culture leads to an increase in leadership and vice versa.

The study found that there exists a strong positive and significant relationship between internal controls (r=0.802, α = 0.05) and financial performance of energy sector state corporations in Kenya. The findings of the current study affirm those made by Puntland, Abdullahi (2016) in an examination of the role of internal controls on the financial performance of higher education systems. The study found that there was a positive correlation between diverse aspects of internal controls; internal audits and financial performance (correlation of 0.815); internal controls systems and financial performance (correlation of 0.08); internal monitoring and financial performance (correlation of 0.88).

The current study found that organizational culture (r=0.801, α = 0.05) on its own has strong positive and significant relationship with financial performance of energy sector state corporations in Kenya. These findings are collaborated by those of Golafzani and Chirani (2016) in a study that examined the role of organizational culture on the financial performance of manufacturing firms. The study found that the diverse components of organizational culture were positively correlated with financial performance as follows; clan culture and financial performance (correlation coefficient of 0.65); adhocracy and financial

performance (correlation coefficient of 0.63); market culture and financial performance (correlation coefficient of 0.68); and hierarchy culture and financial performance (correlation coefficient of 0.59). These relationships were found to be statistically significant at both 1% and 5%. In a study focusing on Kenya Airways, Juma (2015) also found that clan culture (0.557) adhocracy culture (0.611), hierarchical culture (0.561), and market culture (0.323) were positively and significantly correlated with performance.

The study further found that stakeholder management (r=0.805, $\alpha = 0.05$), and leadership and leadership (r=0.832, $\alpha = 0.05$) individually have strong positive and significant relationship with financial performance of energy sector state corporations in Kenya. Similar findings were made by Wachaga (2017) in an examination of the influence of diverse leadership styles on the performance of insurance projects with a focus on the eagle insurance firm. The study found diverse correlation effects between diverse leadership styles and performance as follows; transformational leadership and performance (correlation of 0.849); autocratic leadership and performance (correlation of 0.463); democratic leadership and performance (correlation of 0.793); and permissive leadership and performance (correlation of 0.337).

Finally, the current study found that each of the independent variables (internal controls, stakeholder management, organizational culture, and leadership) affects the financial performance of energy sector state corporations in Kenya.

4.6. Regression Analysis

A multiple linear regression analysis was conducted to establish the relationship that exists between the independent variables (internal controls, stakeholder management, organizational culture, and leadership) and financial performance of energy sector state corporations in Kenya. The model summary results are shown in Table 4.10.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.887[a]	0.786	0.779	0.24648

a. Predictors: (Constant), Leadership, Internal Controls, Stakeholder Management, Organizational culture

The correlation coefficient (R) of 0.887 indicates that there is a strong positive relationship that exists between the observed values and predicted values of the dependent variable. The coefficient of determination (R Square or R^2) explains the variability in the dependent variable that can be accounted for by the independent variables. From the results in Table 4.10, the adjusted R square value for this study was 0.779. This indicates that 77.9% of the changes in the financial performance of energy sector state corporations in Kenya can be accounted by the internal controls, stakeholder management, organizational culture, and leadership of these state corporations. This implies that 22.1% of the variability in financial performance is due to other factors that were not in the scope of this study. Standard error of estimate shows the error term. Small error term indicates that the model is accurate in its prediction. Due to a low standard error of estimate of 0.24648 indicates that the regression model is accurate in its prediction.

The F-test from the analysis of variance (ANOVA) was used to determine whether the regression model was a good fit for data. The study used a level of significance of 0.05 with results presented in Table 4.11.

Table 4.11: ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	28.352	4	7.088	116.673	0.000[b]
Residual	7.715	127	0.061		
Total	36.067	131			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Leadership, Internal Controls, Stakeholder Management, Organizational culture

From Table 4.11, $F_{(4,127)} = 116.673$, $p<0.05$ was obtained. F-test tests the overall significance of the model in fitting a data set. It tests the null hypothesis that all the model coefficientsare zero. The study found that the regression model with internal controls, stakeholder management, organizational culture, and leadership as the independent variables and financial performance as the dependent variable had significant predictive capacity.

The study sought to test the hypotheses of the studyat a level of significance of 0.05 using the p-value method. The t-test was used to judge the significance of the correlation coefficients.The significance level is the maximum value of rejecting null hypothesis when it is true. Since the alpha level (α) of this study was 0.05, coefficients having p values less than alpha would lead to the rejection of the null hypothesis since they were statistically significant. The coefficient results are shown in Table 4.12.

Table 4.12:Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.139	0.156		0.895	0.373
Internal Controls	0.296	0.045	0.347	6.532	0.000
Stakeholder Management	0.284	0.045	0.337	6.327	0.000
Organizational culture	0.196	0.053	0.201	3.679	0.000
Leadership	0.181	0.048	0.209	3.728	0.000

a. Dependent Variable: Financial Performance

The unstandardized beta coefficients were used to determine the contribution of each independent variable on the dependent variable. From Table 4.12, the coefficients were 0.296 for internal controls, 0.284 for stakeholder management, 0.196 for organizational culture, and 0.181 for leadership. Therefore, the regression model was;

$Y = 0.139 + 0.296X_1 + 0.284X_2 + 0.196X_3 + 0.181X_4 + 0.24648$

Where;

Y = Financial Performance

B_0, B1, B_2, B_3, B_4= Model Coefficients

X_1= Internal Controls

X_2= Stakeholder Management

X_3= Organizational Culture

X_4= Leadership

ε = Error Term

The study found that when internal controls are increased by one unit with all other factors held constant, financial performance of energy sector state corporations in Kenya increases by 0.296 units. Therefore, internal controls on their own have positive influence on the financial performance of energy sector state corporations in Kenya. Similar findings were made by Etengu and Amony (2016) in a case study of International Union for Conservation of Nature also found that. Using simple linear regression analysis, the study found that a unit increase in control activities led to 0.393 increase in financial performance due to a beta weight of 0.393. This result was significant at 5% level of significance. Bett and Memba (2017) also found that internal control aspects accounted for 43.2% of the change in the financial performance due to R square of 0.432.

Further, they found that a unit increase in control environment, risk assessment and information system led to a 1.002, 0.990, and 0.024 increase in financial performance respectively. These results were statistically significant at 5% level of significance.Further, the study found that increasing the organizational culture by one unit while other factors are held constant leads to 0.196 units increase in financial performance of energy sector state corporations in Kenya. The findings of the current study differ from those made by Owino (2014) that was based on the microfinance institutions in Kenya. The study found that a unit increase in organizational culture led to -0.556 influence on the ROA due to a beta weight of -0.556 in the simple linear regression. This relationship was due to chance as the same was not statistically significant at 5% level of significance.

Similarly, the study found that when stakeholder management is increased by one unit with all other factors held constant, financial performance of energy sector state corporations in Kenya increases by 0.284 units. Finally, the study found that when leadership is increased by one unit with all other factors held constant, financial performance of energy sector state corporations in Kenya increases by 0.181 units.

The findings of the current study affirm those made by Flanigan, Stewardson, Dew, Fleig-Palmer, and Reeve (2013) who found that a unit increase in leader's own rating of transformational leadership would lead to a 0.044 increase in financial performance. These results were statistically significant at 5% level of significance due to a p value of 0.002. The findings of the study are therefore that internal controls, stakeholder management, organizational culture, and leadership each on its own positively influences the financial performance of energy sector state corporations in Kenya. In order of the variable with greater influence on financial performance than the other among the four variables of the study to the one with least influence, the order was internal controls, stakeholder management, organizational culture, and leadership.

The first hypothesis H_{o1} stated that there is no statistically significant influence of internal controls on financial performance of Energy sector state corporations in Kenya. The t-statistic obtained was 6.532 and $p < 0.05$, which led to the rejection of H_{o1} at a 5% level of significance. Thus, the study found that internal controls have statistically significant influence on financial performance of Energy sector state corporations in Kenya.

The second hypothesis H_{o2} stated that there is no statistically significant influence of stakeholder management on financial performance of energy sector state corporations in Kenya. The t-statistic obtained was 6.327 and $p < 0.05$, which led to the rejection of H_{o2} at a 5% level of significance. Thus, the study found that stakeholder management has a statistically significant influence on financial performance of energy sector state corporations in Kenya.

The third hypothesis H_{o3} stated that there is no statistically significant influence of organizational culture on financial performance of energy sector state corporations in Kenya.

The t-statistic obtained was 3.679 and p<0.05, which led to the rejection of **H$_{o3}$** at a 5% level of significance. Thus, the study found that organizational culture has a statistically significant influence on financial performance of energy sector state corporations in Kenya. Finally, the fourth hypothesis **H$_{o4}$** stated that there is no statistically significant influence of leadership on financial performance of energy sector state corporations in Kenya. The t-statistic obtained was 3.728 and p-value of p<0.05, which led to the rejection of **H$_{o4}$** at a 5% level of significance. Thus, the study found that leadership has a statistically significant influence on financial performance of energy sector state corporations in Kenya.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter concludes this report with a summary of the findings, and presentation of the conclusions and recommendations of the study. It also suggests areas that require further research.

5.2 Summary

The general objective of the study was to examine the effect of corporate governance on financial performance of Energy sector state corporations in Kenya. In this context, the study sought to examine the influence of internal controls, stakeholder management, organizational culture and leadership on the financial performance of energy sector state corporations in Kenya. To achieve these objectives, the study used an explanatory research design to collect data, analyse and report the findings of the study and a target population of senior management team of energy sector state corporations at their respective head offices. The census method was used for data collection aspects and data collected using structured questionnaires. The statistics that were used includes frequencies, Chi Square test of independence, correlation analysis and regression analysis.

5.2.1 Internal Controls and Financial Performance

The study sought to examine the influence of internal controls on the financial performance of Energy sector state corporations in Kenya. These aspects of internal controls that were examined were systems to assess the adequacy of internal controls, frequency of internal audit, control systems for risk management, control systems to safeguard assets, and control activities in authorization of transactions. By useof chi square test, the study established that the availability of systems to assess the adequacy of internal controls, the frequency of internal audit in energy sector state corporations, and the control systems to manage risks are

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related to the financial performance in energy sector state corporations in Kenya. The study also established that the control systems to safeguard assets of energy sector state corporations are related to their financial performance. From regression analysis, the studyfound that internal controls have statistically significant influence on financial performance of Energy sector state corporations in Kenya (t-statistic obtained=6.532; $p < 0.05$).

5.2.2 Stakeholder Management and Financial Performance

In order to establish the influence of stakeholder management on the financial performance of Energy sector state corporations in Kenya the study used five metrics which were stakeholder involvement, stakeholder identification, stakeholder communication, stakeholder engagement, and stakeholder empowerment. Results from chi squaretest revealed that the identification of roles and responsibilities of different stakeholders, stakeholderempowerment towards their role in project sustainability, and stakeholder involvement in risk planning are related with financial performance of energy sector state corporations in Kenya. The study also found thatsufficiency of stakeholder communication and adequacy of stakeholder engagement during the course of the project and financial performance of energy sector state corporations in Kenya are related.Stakeholder management was found to have a statistically significant influence on financial performance of energy sector state corporations in Kenya (t-statistic=6.327; $p < 0.05$).

5.2.3 Organizational Culture and Financial Performance

Assessment of the influence of organizational culture on the financial performance of Energy sector state corporations in Kenya was conducted using five metrics. These were chain of command in decision making, communication on policies, teamwork, customer focus, and innovation.The study found that adequacy of communication on diverse organizational policies and a defined chain of command in decision makinghave a relationship with

financial performance of energy sector state corporations in Kenya. The study also established that teamwork efficiency in execution of tasks, encouraging innovation towards efficiency and consistency in service provision through customer focus are related to financial performance of energy sector state corporations in Kenya. The study found that organizational culture has a statistically significant influence on financial performance of energy sector state corporations in Kenya (t-statistic=3.679; p<0.05).

5.2.4 Leadership and Financial Performance

a) Leadership Performance

The study explored the influence of leadership on the financial performance of energy sector state corporations in Kenya based on five indicators. These were strategic response to budget requirements, supervision of internal controls, value for money from operational processes, acquisition of organizational assets, and disposal of organizational assets.The chi square testresults indicated that there exists a relationship between leaders' use of different strategies to respond to budget requirements and supervision of internal controls are related to the financial performance in the energy state corporations in Kenya. In addition, the study found thatleaders' drive towards value for money from operational processes is related to financial performance of energy sector state corporations in Kenya.The study also established that proper acquisition of organizational assets and proper disposal of organizational assets in energy sector state corporations in Kenya are related to their financial performance.From regression analysis, the study found that leadership has a statistically significant influence on financial performance of energy sector state corporations in Kenya (t-statistic=3.728; p<0.05.

b) Financial Performance

The financial performance of energy sector state corporations in Kenya was examined using five metrics. These metrics were adherence to financial regulations, estimates of expenditure conformity with strategic plan, estimates of revenue conformity with strategic plan,

sufficiency of estimates of expenditure, and achievement of estimates of revenue.From correlation analysis, the study established that the internal controls (r=0.802, $\alpha = 0.05$), stakeholder management (r=0.805, $\alpha = 0.05$), organizational culture (r=0.801, $\alpha = 0.05$), and leadership (r=0.832, $\alpha = 0.05$) were individually found to have strong positive and significant relationship with financial performance of energy sector state corporations in Kenya. This indicates that each of the independent variables (internal controls, stakeholder management, organizational culture, and leadership) affects the financial performance of energy sector state corporations in Kenya.

The results of the multiple linear regression indicated that there is a strong positive relationship that exists between the observed values and predicted values of dependent variable (R=0.887). The study found that 78.6% of the changes in the financial performance of energy sector state corporations in Kenya can be accounted by the internal controls, stakeholder management, organizational culture, and leadership of these state corporations. This implies that 21.4% of the variability in financial performance is due to other factors that were not in the scope of this study. The regression model was found to be accurate in its prediction due to a low standard error of estimate (0.24648).

The study found that the regression model with internal controls, stakeholder management, organizational culture, and leadership as the independent variables and financial performance as the dependent variable had significant predictive capacity ($F(4,127) = 116.673$, $p<0.05$). Using the unstandardized beta coefficient results, the studyfound that internal controls (B=0.296), stakeholder management (B=0.284), organizational culture(B=0.196), and leadership (B=0.181) each on its own positively influences the financial performance of energy sector state corporations in Kenya. In order of the variable with greater influence on financial performance than the other among the four variables of the study to the one with

least influence, the order was internal controls, stakeholder management, organizational culture, and leadership.

5.3 Conclusions

The study concluded the following in respect to the specific objectives of the study;

The internal controls were found to have a positive and significant influence on the financial performance of the energy sector parastatals. The study concluded that internal controls are critical to the financial performance of the energy sector parastatals.

The stakeholder management was found to have a positive and significant influence on the financial performance of the energy sector parastatals. The study concluded that stakeholder management is critical to the financial performance of the energy sector parastatals.

Organizational culture was found to have a positive and significant influence on the financial performance of the energy sector parastatals. The study concluded that organizational culture is critical to the financial performance of the energy sector parastatals.

Finally, leadership was found to have a positive and significant influence on the financial performance of the energy sector parastatals. The study concluded that leadership is critical to the financial performance of the energy sector parastatals.

5.4 Recommendations of the Study

The study recommends that the energy sector state corporations ensure that there is the adequacy of internal controls are available and that the frequency of internal audit in energy sector state corporations be increased. This will ensure that the state corporations are able to effectively monitor their accounting and auditing operations for improved financial performance. In terms of control systems, this study recommends that energy sector state corporations in Kenya invest in updated systems for risk managementand safeguarding of assetsto ensure they are protected against losses from defaulting on payments and depreciation of assets, respectively.

The study also recommends that energy sector state corporations conduct trainings to assist stakeholders identifytheir roles and responsibilities and to empower them towards their role in project sustainability. The energy state corporations should also provide sufficient communication to stakeholders and engage then adequately during the course of the project to secure their confidence and meet their expectations.

The study further recommends that there be adequate communication on diverse organizational policies and a defined chain of command for decision making from management. The employees of the energy sector state corporations should be encouraged to embrace teamwork which will lead to efficiency in execution of tasks and should be innovative in how they provide services to customers to ensure there is efficiency and consistency in service provision. This will help the state corporations achieve better financial performance.

5.4.1 Policy Recommendations

The study recommends that leaders adopt different strategies to respond to budget requirements and spearhead minimization of risks by frequent supervision of internal controls.They should also offer better leadership and exercise strategies that bear value for money from operational processes.The policy makers should review policies for acquisition and disposal of organizational assets to ensurethat the guidelines are practical and minimize losses for the energy sector state corporations.

5.4.2 Recommendations for further studies

Future researchers and academicians should study the effect of corporate governance on financial performance of state corporations in other sectors in Kenya for generalizability of results to all state corporations.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

My name is Deborah Jepkemboi, a Masters of Business Administration student at Kabarak University. I am currently conducting a research on:**Effect of Corporate Governance on Financial Performance of Energy Sector State Corporations in Kenya.** I hereby request you to provide me with the information in the questionnaire which will greatly aid me to achieve my research objectives and fulfill part requirement of my masters' degree.

This research is for academic purposes only and any information offered will be treated confidentially and used for the purpose of this research only. I assure that your responses and identity will be kept confidential. Your participation is voluntary and you can withdraw at any time without penalty. The findings of the research will ultimately help improve the performance of this company. By completing the questionnaire, you indicate that you voluntarily participate in this research.

Regards,

Deborah Jepkemboi

APPENDIX II: QUESTIONNAIRE

EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF

ENERGY SECTOR STATE CORPORATIONS IN KENYA

Section I: Background Information

Indicate your answer by ticking the response that best describes your answer.

1. Which is your gender?

Male [ ]   Female [ ]

2. Which age group do you belong to?

Below 25 Years [ ]   26-35 Years [ ]   36-45 Years [ ]   46-55 Years [ ]

Above 55 Years [ ]

3. For how long have you worked for Energy sector state corporations?

Below one Year [ ]   1-5 Years [ ] 6-10 Years [ ]   Above 10 Years [ ]

Section II:Internal Controls

No	*To what extent do you agree that;*	1	2	3	4	5
4.	There are systems to assess the adequacy of internal controls					
5.	The frequency of internal audit is sufficient					
6.	There are control systems to manage risks					
7.	There are control systems to safeguard assets					
8.	There are adequate control activities in authorization of transactions					

Section III:Stakeholder Management

No	To what extent do you agree that;	1	2	3	4	5
9.	Stakeholders are involved in risk planning					
10.	The roles and responsibilities of different stakeholders are identified					
11.	There is sufficient stakeholder communication					
12.	There is adequate stakeholder engagement during the course of the project					
13.	Stakeholders areempowered towards their role in project sustainability					

Section IV:Organizational Culture

No	To what extent do you agree that;	1	2	3	4	5
14.	A defined chain of command influences decision making					
15.	There is adequate communication on diverse organizational policies					
16.	Teamwork influences efficiency in execution of tasks					
17.	Customer focus ensures there is consistency in service provision					
18.	Innovation within the state corporation towardsefficiency is encouraged					

Section V: Leadership

No	To what extent do you agree that;	1	2	3	4	5
19.	Leaders use different strategies to respond to budget requirements					
20.	There is supervision of internal controls					
21.	Leaders drive value for money from operational processes					
22.	There is proper acquisition of organizational assets					
23.	There is proper disposal of organizational assets					

Section IV: Financial Performance

No	To what extent do you agree that;	1	2	3	4	5
24.	Preparation of estimates of expenditure always conform with the strategic plan					
25.	Preparation of estimates of revenue always conform with the strategic plan					
26.	The estimates of expenditure are sufficient for operations					
27.	Preparation of estimates of revenue are always met					

APPENDIX III:RESEARCHAUTHORIZATION LETTER

APPENDIX IV: NACOSTI AUTHORIZATION

APPENDIX V: RESEARCH PERMIT